B. J. Stevens

What is Necessary to Ascertain and Fix a Just Compensation to the Railroads for Carrying the Mails?

STATEMENT

SUBMITTED TO THE

JOINT COMMISSION

TO

INVESTIGATE THE POSTAL SERVICE,

BY

STUYVESANT FISH,

PRESIDENT OF THE

ILLINOIS CENTRAL RAILROAD COMPANY.

January 6, 1899.

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ILLINOIS CENTRAL RAILROAD COMPANY.

NEW YORK, January 6, 1899.

TO THE HONORABLE
THE COMMISSION
TO INVESTIGATE THE POSTAL SERVICE,
Washington, D. C.

Gentlemen:

It is to be assumed that your purpose is to ascertain, and that of Congress to fix, a just compensation to the railroads for carrying the mails.

To the determination of such compensation, more is needed than the mere consideration of the relation of the rates of mail pay in force to the compensation received by the railroads for other services.

For if the railroads are, as some contend, now receiving such revenues as to enable them to make excessive profits, it is obviously wrong that they should be paid with equal extravagance for the mails; while, on the other hand, if the railroads are not now sufficiently paid for their services, it is equally wrong that this should be availed of to reduce their mail pay.

The action of the Officers and Directors of the larger number of Railroad Companies in miscalling the sums collected by them for the transportation of passengers and property "Earnings", has led to the grossest misapprehension as to what the railroads really do Earn.

Some Companies have gone so far as to state what they are pleased to call "Net Earnings", and to make dividends therefrom, without first deducting Taxes and, in whole or in part, such other necessary and unavoidable expenses of conducting the business as Interest, Insurance, Exchange and Rent.

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Unfortunately the Interstate Commerce Commission,—which was created, in part at least, for the purpose of correcting and preventing such errors and the consequent frauds upon the public and the creditors of the railroads, and which has done so much to improve the methods of railroad accounting,—adopted and persisted in both of these errors until last year, and still persists in the latter.

The Act of 1887 to Regulate Commerce, as since amended, requires:

> That the Commission shall, on or before the first day of December in each year, make a report, which shall be transmitted to Congress, and copies of which shall be distributed as are the other reports transmitted to Congress. This report shall contain such information and data collected by the Commission as may be considered of value in the determination of questions connected with the regulation of commerce.

The only information and data given at a time and in a manner which in any measure fulfils this requirement, are contained in the Preliminary Reports on the Income Account of Railways in the United States for the year ending on the 30th of June preceding, which are annually made to the Commission by their Statistician. While the Preliminary Report for June 30, 1898, has not been made and transmitted to Congress, such a report can confidently be expected to appear before long.

It should be added that later on a fuller report, entitled "Statistics of Railways," is also made by the Statistician to the Commission. But as this is never published in full until eighteen months, or more, after the close of the period to which it relates, and then only as an Appendix to a long forgotten Report of the Commission to Congress, it is difficult to see how it can be "of value in the determination of questions connected with the regulation of commerce."

(The obvious and great improvements made by the Commission in their last Preliminary Report, and the high regard which I entertain and have so often expressed for the Members of that body, disarm me alike of power or desire to criticize their recent work, further than is abso-

lutely necessary in order to bring the facts to your attention. It is but fair to add that the Commission claim, with some force, that they are delayed by the failure of certain railroad companies to report promptly, On the other hand, a simpler and clearer Statistical Report could undoubtedly be got out in time to be of value, if all useless elaboration of detail were omitted therefrom.)

The Preliminary Reports alone reach the attention of Congress and of the People in time to have either value or interest.

The first ten Annual Reports of the Interstate Commerce Commission, down to and including the one made under date of December 1, 1896, and each of the Preliminary Reports which accompanied them, can be read throughout, without discovering that any railroad in the United States had ever paid any taxes.

It took me a long while to discover that in the belated "Statistics of Railways," Taxes had been persistently hidden away under the heading of "Fixed Charges," and so used to swell that which, as all the world knows, forms a part of the hire of borrowed capital, *i. e.*, Interest and Rent.

It is due to the Interstate Commerce Commission to say that in their last, the Eleventh Annual Report, and in the Preliminary Report which accompanied it, as well as in the brief Abstract of Statistics of Railways for the year ending June 30, 1897 (published August 18, 1898), the fact that the railroads paid taxes was clearly brought out, and the amount paid, $43,137,844, was plainly stated.

But the Commission persist in stating Net Earnings, without even deducting Taxes, leave alone Interest and Rent.

The last Preliminary Report also made a clear and very necessary distinction between the income of the Operating Railroads, which are those "common carriers engaged in the transportation of passengers or property" (see Act of 1887 to Regulate Commerce, Sec. 1), and the income of Operated Railroads, which are those which have ceased to deal with the public as common carriers in consequence of having leased their franchises and facilities to one or other of the Operating Railroads.

Taken as a whole, the Operating Companies have two sources of revenue:

FIRST.—The money which they receive, as common carriers, for the transportation of passengers and freight, including therein the mails.

This is common to all of the Operating Companies.

SECOND.—The money which certain of them receive from other sources.

The Receipts of all the Operating Companies from transportation, however, comprise the sum total of all that is paid in the United States for transportation by rail.

Their Receipts from other sources consist mainly, if not entirely, of the Rent of Railroad Property and of Interest and Dividends on Investments in Railroads. All of this must, however, come from the money which the Operating Railroads, as a whole, have taken for transportation.

That is to say, in considering, as we must, the railroads as a whole, the second source of revenue above set forth is in no sense an addition to the first, but merely the distribution of a part of it to such of the Operating Companies as are by contract entitled thereto. No one will question that if those Companies should sell, or divide among their shareholders, all the property and securities from which such rents and interest come, their income would thereafter be confined to the first source of revenue alone.

While no one can object to the revenue from the second source being stated in detail, with respect to each Company, in the reports of the Interstate Commerce Commission, as a matter of general information, it should not, and, it is fair to assume, it is not, included in those reports as having any value in the determination of questions connected with the regulation of commerce, much less in ascertaining the just compensation of the carriers.

Least of all should this second source of revenue be added to the first, as has been attempted by some in order to make the pay received by the railroads, for services rendered, appear larger than it is.

From the fact that certain corporations have for years been thrifty, forehanded and self-denying in the division of profits, while others have been wasteful and improvident, it results that the latter are debtors to the former, but this does not in any way swell the charge made by the railroads, as a whole, for the services rendered by them.

In what follows, the term "Gross Receipts from Transportation," or for brevity, "Gross Receipts," is substituted for that which the Interstate Commerce Commission, in their Reports heretofore published, have called "Gross Earnings," because the Earnings of a Railroad Company are precisely what the Earnings of any other corporation for gain are, to wit, that which is left of the Gross Receipts or Gross Sales after paying the expenses of conducting the business, including therein Taxes, Rent and Interest.

With a view to showing just what the Railroads of the United States, taken as a whole, have earned from transportation since the Interstate Commerce Commission began to make full Statistical Reports, and of exhibiting, as tendencies of the business, the enormous increase, both in the amount of Taxes and the relation of Taxes to the Earnings, permit me to invite your careful attention to the four tables following:

FOUR TABLES COMPILED FROM INTERSTATE COMMERCE COMMISSION REPORTS ON STATISTICS OF RAILWAYS IN THE UNITED STATES.

No. 1.

Statement showing the Gross Receipts from Transportation, the Expenses and the resultant Earnings or Losses of the Railroad Companies taken as a whole.

Years ended June 30.	Gross Receipts from Transportation.	Operation Expenses paid out.	Taxes paid out.	Rent and Interest paid out.	Total Expenses paid out.	Excess of Gross Receipts over Total Expenses, *i. e.*, EARNINGS.	Excess of Total Expenses over Gross Receipts, *i. e.*, LOSSES.
1890.....	$1,051,877,632	$692,093,971	$31,207,469	$321,587,465	$1,044,888,905	$6,988,727	$.....
1891.....	1,096,761,395	731,887,893	33,280,095	323,837,635	1,089,005,623	7,755,772	.....
1892.....	1,171,407,343	780,997,996	34,053,495	350,222,413	1,165,273,904	6,133,439	.....
1893.....	1,220,751,874	827,921,299	36,514,689	365,389,316	1,229,825,304	.....	9,073,430
1894.....	1,073,361,797	731,414,322	38,125,274	361,343,759	1,130,883,355	.....	57,521,558
1895.....	1,075,371,462	725,720,415	39,832,433	354,697,919	1,120,250,767	.....	44,879,305
1896.....	1,150,169,376	772,989,044	39,970,791	351,065,562	1,164,025,397	.....	13,856,021
1897.....	1,122,089,773	752,524,764	43,137,844	343,229,868	1,138,892,476	.....	16,802,703
Total....	$8,961,790,652	$6,015,549,704	$296,122,090	$2,771,373,937	$9,083,045,731	.....	$121,255,079

No. 2.

Statement showing Gross Receipts, Expenses and Resultant Earnings or Losses per mile,—of the Railroad Companies, taken as a whole.

Year ended June 30th.	Miles of Railroad Operated.	Gross Receipts per mile.	Operation Expenses per mile.	Taxes per mile.	Rent and Interest per mile.	Total Expenses per mile.	Excess of Gross Receipts per mile over Total Expenses per mile, being the EARNINGS per mile.	Excess of Total Expenses per mile over Gross Receipts per mile, being the LOSSES per mile.
1890	156,404	$6,725	$4,425	$199	$2,056	$6,680	$45	----
1891	161,275	6,801	4,538	206	2,007	6,752	49	----
1892	162,397	7,213	4,809	209	2,156	7,175	38	----
1893	169,780	7,190	4,876	215	2,152	7,243	----	$53
1894	175,691	6,109	4,163	217	2,056	6,436	----	327
1895	177,746	6,050	4,083	224	1,995	6,302	----	252
1896	181,983	6,320	4,247	219	1,929	6,396	----	76
1897	183,284	6,122	4,105	235	1,872	6,213	----	91

No. 3.

Statement showing the relation of the Expenses and of the sums Earned or Lost by the Railroad Companies, taken as a whole, to their Gross Receipts.

Years ended June 30th.	Per cent. of Gross Receipts paid out for Operation Expenses.	Per cent. of Gross Receipts paid out for Taxes.	Per cent. of Gross Receipts paid out for Rent and Interest.	Per cent. of Gross Receipts paid out for Total Expenses.	Per cent. of Gross Receipts EARNED.	Per cent. of Gross Receipts LOST.
1890	65.8	2.97	30.5	99.3	.7	----
1891	66.7	3.03	29.6	99.3	.7	----
1892	66.7	2.90	29.9	99.4	.6	----
1893	67.8	2.99	29.9	100.7	----	.7
1894	68.1	3.55	33.6	105.3	----	5.3
1895	67.5	3.70	32.9	104.1	----	4.1
1896	67.2	3.47	30.5	101.2	----	1.2
1897	67.0	3.84	30.5	101.4	----	1.4

No. 4.

Statement showing the relation of the Taxes paid by the Railroads, taken as a whole, with the Earnings or Losses made by them.

Year ended June 30th.	Taxes paid out.	Excess of Gross Receipts over Total Expenses, being EARNINGS.	Excess of Total Expenses over Gross Receipts, being LOSSES.	Excess of Taxes over Earnings.
1890	$31,207,469	$6,988,727	$	$24,218,742
1891	33,280,095	7,755,772		25,524,323
1892	34,053,495	6,133,439		27,920,056
1893	36,514,689		9,073,430	45,588,119
1894	38,125,274		57,521,558	95,646,832
1895	39,832,433		44,879,305	84,711,738
1896	39,970,791		13,856,021	53,826,812
1897	43,137,844		16,802,703	59,940,547
Total	$296,122,090		$121,255,079	$417,377,169

During these eight years the railroads of the United States paid out in the conduct of their business $121,255,079 more than they took in. In no single year have they ever *earned* one per cent. of that which they *received.* In each year their Taxes have been at least three times as great as their Earnings, and in no one of the last five years have the railroads, taken as a whole, earned anything whatever.

While the Interstate Commerce Commission may not have said so in so many words, no one can read the Reports made to them by their Statistician without becoming convinced that the railroads of the United States, taken as a whole, have not, in recent years, earned anything whatever, but have been losing money constantly and very rapidly.

As bearing on this, your attention is invited to "Statistics of Railways" for 1894, page 10, where, after reporting that the Companies owning 40,818 miles of railroad were then in default, it is said that "The total capitalization of railroads in the hands of Receivers was about $2,500,000,000—that is to say, one-fourth of the total railway capitalization of the country."

"Statistics of Railways," 1895, page 10, likewise shows that the 37,855 miles of railroad then in the hands of Receivers represented an investment of $2,439,144,503.

See also "Statistics of Railways," 1894, where, after giving a comparison of conditions with those prevailing in 1893, which revealed that the number of men employed had, within that year, been lessened by 93,944, the Statistician says, at page 73:

> Comment upon the facts in the above summary would be superfluous. Railway construction was arrested, development of railway equipment was nearly stationary, railway employees were reduced, and that after a series of years which showed an average annual increase in the pay roll of 42,215 employees.

In order that there shall be no ground for saying that the deductions necessarily to be made from the four tables above set forth on pages 8 to 11, depend either upon the question of calling the money taken by the railroads "Earnings" or "Receipts," or upon that of counting over a second time the income which certain railroads derive from investments in others, and in order to establish beyond cavil that the official figures printed by the Interstate Commerce Commission demonstrate that during the whole period for which they have published Statistics, from 1890 to 1897, the railroads, taken as a whole, have not earned anything whatever—let me ask you to take the General Balance Sheet set forth on page 74 of "Statistics of Railways," 1890, and compare it with the Balance Sheet given on page 83 of "Statistics of Railways," 1896, as is done below.

COMPARISON OF THE EARLIEST WITH THE LATEST GENERAL BALANCE SHEET OF ALL THE RAILROADS.

Showing increase and decrease between June 30, 1890, and June 30, 1897.

	1890.	1896.	INCREASE.	DECREASE.
Miles of Railroad	156,404	173,860	17,456	
ITEM.				
Assets:				
Cost of Road	$7,333,096,430	$8,929,897,770	$1,596,801,340	
Cost of Equipment	422,290,951	570,429,963	148,139,012	
Stocks Owned	241,115,665	600,786,616	359,670,951	
Bonds Owned	489,049,859	368,820,203		$120,229,656
Cash and Current Assets	307,874,188	344,559,935	36,685,747	
Materials and Supplies	63,785,950	68,744,042	4,958,092	
Sinking Fund and Sundries	125,095,987	130,468,729	5,372,742	
Miscellaneous	710,300,536	602,032,887		108,267,649
Total	$9,692,609,566	$11,615,740,145	$1,923,130,579	
Liabilities:				
Capital Stock	$4,179,156,990	$5,094,565,549	$915,408,559	
Funded Debt	4,462,577,079	5,382,680,329	920,103,250	
Current Liabilities	440,513,629	613,097,103	172,583,474	
Accrued Interest on Funded Debt Not Yet Payable	25,341,994	29,254,844	3,912,850	
Miscellaneous	394,918,201	380,929,540		13,988,661
Profit and Loss	190,101,673	115,212,780		74,888,893
Total	$9,692,609,566	$11,615,740,145	$1,923,130,579	

From this comparison we find, as the result of seven years' business, that the Railroads of the United States, after parting with nearly 25 per cent. of their "Bonds Owned" and reducing that asset by $120,229,656, and after reducing their "Miscellaneous Assets" by 15 per cent., or $108,267,649, have increased their "Current Liabilities," *i. e.*, Floating Debt, by 39 per cent., or $172,583,474, and have also diminished the Balance at the credit of Profit and Loss by 39 per cent., or $74,888,893.

Here are losses worked out by the Statistician of the Interstate Commerce Commission, from the sworn Reports of the Railroad Companies, which are simply appalling.

The whole period, from 1890 to 1896, for which the Commission have as yet made full reports, has been taken.

Had the comparison been confined to the pre-eminently bad years, 1893 to 1896, the contrast would have been even more startling.

If, therefore, so vast an industry as that represented by the railroads of the United States, upon which some 900,000 men depend directly for employment, has been for years conducted at an absolute loss, can it be right for Congress, in fixing a just compensation for carrying the mails, to consider only the relation of the ruinously low charges which competition and adverse legislation have forced on the railroads?

Respectfully submitted,

STUYVESANT FISH,
President.

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